

SENATE BILL 1004

Problem

- Michigan retailers have to pay a 32% of the wholesale price on all cigars they purchase (other tobacco products excise tax known as OTP)
- Michigan cigar customers are required to pay 6% sales tax on all purchases
- Unlike cigarettes, cigars can be legally shipped to consumers home and businesses
- The cigar industry estimates that roughly two-thirds of all cigars smoked in Michigan are purchased on line or through catalog sales
- Individuals are required to "voluntarily" pay the OTP and Sales taxes on all on line and catalog tobacco purchases by filling out a form and including the tax on their annual income tax returns
- Internet and catalog companies are not required to collect OTP or sales tax creating a 38% built in price increase unless they have nexus in the state
- Many times consumers can purchase cigars on line or from catalogs cheaper than what retailers can purchase on the wholesale market

Solution

- SB 1004 will place a cap on the OTP tax at 50 cents per cigar
- The cap will allow retailers to lower their prices so that consumers will purchase cigars from MI businesses
- 6 other states have passed OTP cap tax legislation
- After passing the cap legislation all 6 states have seen their OTP tax collections increase on an annual basis
- Iowa had a 9% increase in OTP tax collections from '09 – '10
- Rhode Island had a 16% increase in OTP tax collections from '06 – '10
- Washington had a 30% increase in OTP tax collections from '05 – '10
- Wisconsin had a 42% increase in OTP tax collections from '08 – '10
- Oregon had a 86% increase in OTP tax collections from '02 – '10

Myths

- SB 1004 will NOT increase the amount of cigars people smoke in Michigan – it will increase the amount of OTP and sales taxes collected – which the state receives nothing today
- SB 1004 will NOT lower the OTP tax rate – all other tobacco products will be taxed at the 32% rate
- SB 1004 will NOT increase the tax to 50 cent per cigar small cigars it only puts a cap on them at 50 cents